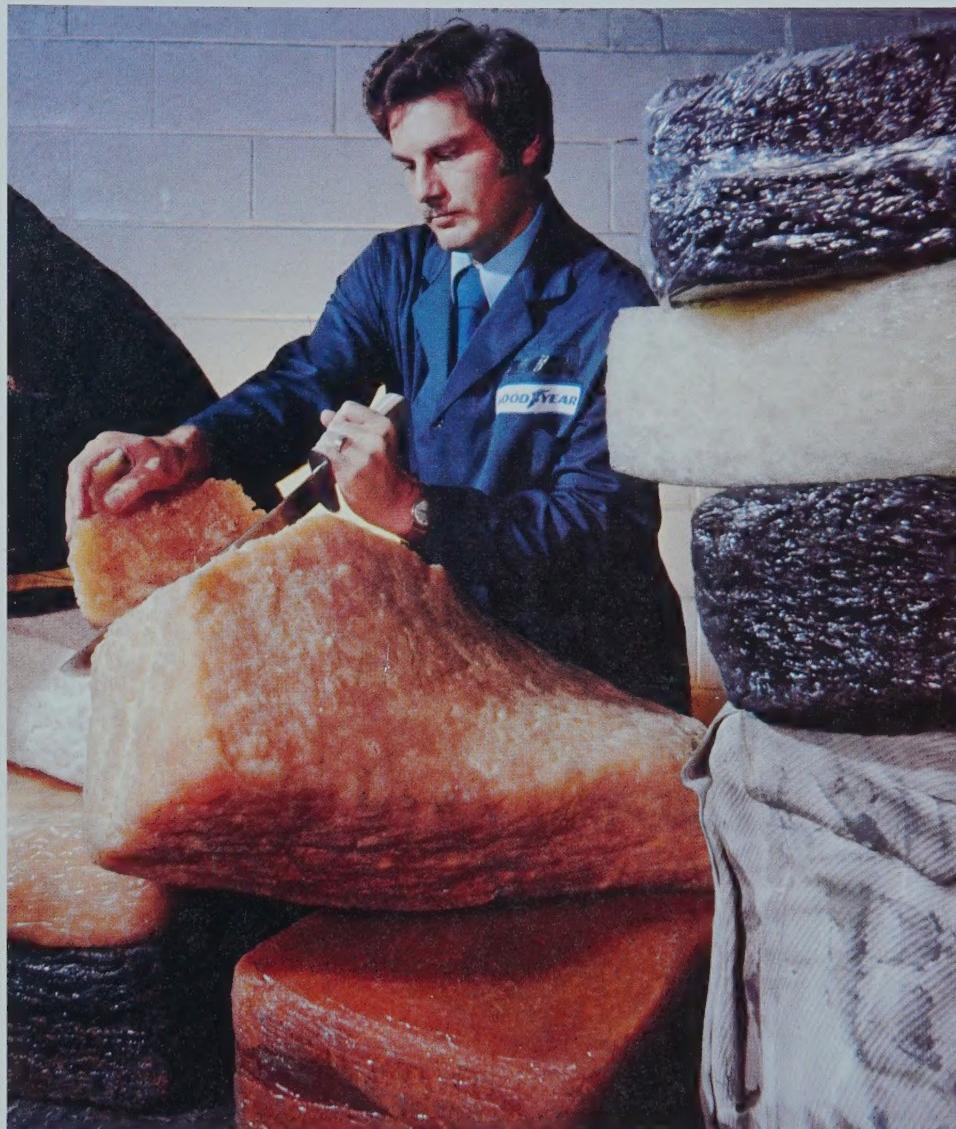


Goodyear Canada Inc.

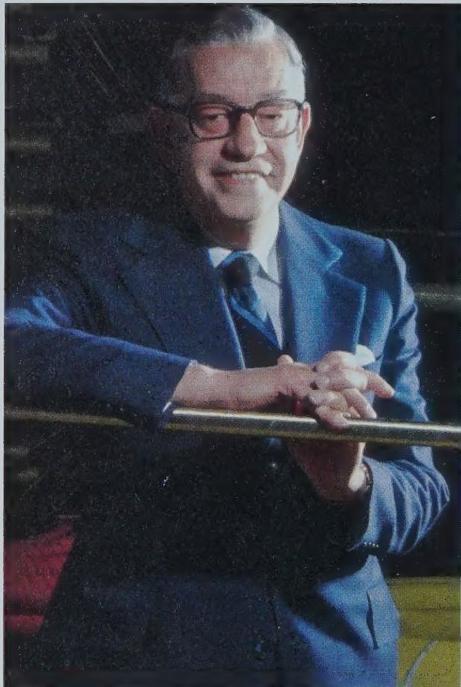
1977 ANNUAL REPORT



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Goodyear Canada uses some 15 different types of natural and synthetic rubber in the manufacture of its products. Here, Vince Rinella, of Industrial engineering at the Toronto plant, cuts a sample for testing.



Report to the Shareholders

We are pleased to submit the company's financial statements for the year ended December 31, 1977.

Sales for the year 1977 were again at a record level, and earnings improved substantially over 1976.

Consolidated net sales of \$373,101,000 compared with \$366,335,000 for 1976. This was an increase of \$6,766,000 or 1.8 per cent.

Consolidated net income of \$9,323,000 exceeded the \$6,155,000 earned in 1976 by \$3,168,000 or 51.5 per cent. The 1977 earnings were equivalent to \$3.57 per common share, compared with \$2.33 in the prior year.

Fourth quarter sales of \$102,878,000 represented an increase of \$4,174,000 or 4.2 per cent over the \$98,704,000 recorded in 1976, and earnings of \$2,832,000 compared with \$3,520,000 in the corresponding period last year, a decline of \$688,000 or 19.5 per cent.

Dividends paid in 1977 were equivalent to 69 cents per common share, compared with 62.25 cents in 1976. The increase was the maximum allowed under regulations of the Anti-Inflation Board.

Dividends of \$2.00 per share were paid on the four per cent preferred shares.

Taxes and duties amounted to \$28,469,000 or \$11.07 per common share, as against the \$24,874,000 or \$9.67 per common share paid in the previous year.

Total compensation to employees, together with pension, hospitalization, group insurance and related benefits, was \$118,124,000, up 3.4 per cent from \$114,189,000 in 1976.

Capital expenditures totalled \$5,410,000 in 1977, compared with \$11,636,000 in 1976.

Depreciation charged against earnings in 1977 increased to \$10,492,000 from \$9,610,000 in the preceding year.

Nineteen seventy-seven was a year of accomplishment for Goodyear Canada. The progress, which followed the gains

made in 1976, was notable because it was realized in a most difficult economic environment. The year started strong and continued at a satisfactory business level throughout the first half. Demand in the second half was disappointing and, by year-end, several of our plants were operating below capacity.

Net income for the year was the third highest in the company's history; it was achieved despite a highly competitive market and increased costs of labour and material. It reflected a continuing, concerted effort to control costs, expenses and investments and the adoption of aggressive marketing strategies. The general products division contributed substantially to the improvement in corporate profits.

The completion of major conversion, expansion and modernization programs provided efficiency gains and lower factory costs. This was particularly apparent in the production of radial tires in Valleyfield, hose in Collingwood and power-transmission belts in Owen Sound.

Throughout the year, the company intensified its activities designed to satisfy the growing popularity of radial tires for passenger cars and trucks. It expanded production capacity and introduced new product lines. Outstanding among them were the Eagle, a premium-quality radial passenger tire, incorporating Flexten fabric belts, and the Unisteel TD-1, a traction-drive all-steel radial truck tire for operation in rugged northern country. These new products, plus others planned for the near future, are expected to strengthen the company's position as a leading supplier of radial tires to the Canadian market.

In 1977, the company consolidated its leadership in the rubber industry as a manufacturer of general products. It now has an aggressive and highly specialized marketing organization; its manufacturing facilities, including the Collingwood and Owen Sound plants, are among the most modern in Canada, and Bowmanville, the only Canadian source of steel-cable conveyor belting, has established a solid reputation for product quality and customer service. The greatest opportunities for growth lie in the high-technology molded and extruded products manufactured in the Quebec City plant and the energy-saving automotive products under development at Owen Sound.

Executive changes

H. G. Wloka became vice-president, finance and a director of the company succeeding H. A. Brundage who retired after 36 years of Goodyear service, including 17 years with Goodyear Canada.

P. E. Vivian was named vice-president, personnel; C. H. Johnson became vice-president, general products, succeeding H. M. Wells who returned to The Goodyear Tire & Rubber Company of Akron, Ohio, after serving in Canada for more than five years; W. R. Hayward was

appointed comptroller; John Rennie assistant comptroller, and G. W. Barnes, assistant secretary.

Innovation and personnel development

A company-wide innovation program, launched in the summer of 1977, received an enthusiastic response from employees, present and retired. At the year-end 300 ideas had been submitted to the Innovation Policy Committee and most were under active study. The main objectives of the innovation campaign are to develop new products, markets and technologies; to maintain a lead over competition and to improve sales and profits. The key to the success of the campaign is the participation of Goodyear personnel at all levels.

Continued emphasis was given to personnel training in all functions; this included seminars, workshops, sales conferences and attendance by selected individuals of special courses at institutes of higher education. The company considers the development of promising employees essential to maintaining its number one position in the Canadian rubber industry.

Outlook

The consensus of most forecasters is that 1978 will be a year of relatively slow growth, with inflation and unemployment dominating the economic scene and affecting personal spending. The rubber industry as a whole will be affected by the general economic climate and face another difficult period. In spite of this, we are cautiously optimistic about the company's performance in 1978.

Goodyear Canada, with an aggressive sales force, an efficient manufacturing organization and an extensive distribution network, is in a good position to face the coming challenge. With the support of our shareholders and the active participation of our employees, dealers and distributors, we are confident that 1978 will be another year of progress toward our objectives of fair return on sales and investments.

With the approval of the Board of Directors.



J. R. Hicks
President and
Chief Executive Officer
February 7, 1978

Goodyear in review

Tires

Nineteen seventy-seven was characterized by the growing popularity of radial construction for replacement passenger and truck tires and by intense competition among manufacturers for a position of leadership in those markets.

The company announced the introduction of two new radial tires: the premium Eagle Radial passenger tire and the Unisteel TD-1 Radial truck tire. The Eagle Radial, designed with the aid of a computer to obtain the right combination of shapes and grooves, assures good traction and a quiet ride. At the heart of its design are two belts of Flexten, a tough, but flexible cord made from aramid fibre through an exclusive Goodyear process. The body plies are made of smooth-riding polyester. The Unisteel TD-1 Radial is a block-design, traction-drive, all-steel radial tire for service on and off the road as well as in snow.

A product line simplification program was announced which will see two new lines replace all other bias-ply passenger tires except the Rally GT performance tire, thus reducing manufacturing costs and inventory investments.

Introduced early in the year, the Tracker A-T tire for four-wheel-drive vehicles gained wide acceptance.

Goodyear Canada continued to play a major role as a supplier of tires and related services to the giant James Bay Hydroelectric Project in northern Quebec. The company also supplied prototype high-flotation, low-pressure tires to a leading Canadian manufacturer for tests on pipe-laying equipment which could be used in the construction of a major natural gas pipeline.



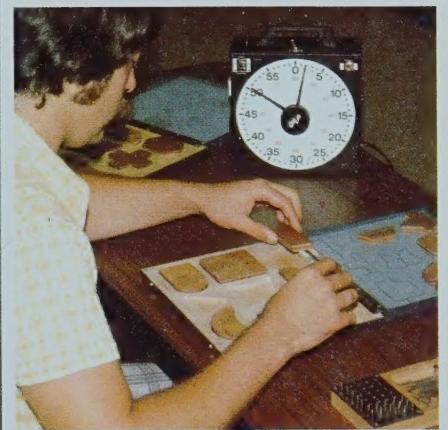
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- 1 Goodyear grader tires take a deep bite on proving grounds of Champion Road Machinery Limited, at Goderich, Ontario.
- 2 Manager of highway transportation Jim Best (left) and account supervisor Jim Ferguson carry out a routine check of tires supplied to a major transportation company on a charge-per-mile basis.

Shift foreman Rod Graham inspects Flexten fabric being calendered at the Toronto plant. The material, pound for pound stronger than steel, is used as reinforcement in premium quality radial tires.



3 Plunger attempts to break through steel belt of radial tire in one of several tests made at the Toronto plant by tire-testing technician Mal Goodjohn.

4 Applicant undergoes aptitude test at the Valleyfield plant. The test is one of four given to aspiring tire builders before they enter an extensive training program.

As Canada's leading supplier of farm tractor tires, Goodyear contributes significantly to agriculture. Here, a combine harvests corn on a southern Ontario farm.





Brass-plated steel-wire reinforcement of high pressure pneumatic hose is inspected by development engineer Allan McIntosh at the Collingwood plant. The hose, designed for mining and construction operations in Canada's north, must remain flexible at temperatures as low as -57 degrees Celsius (-70 degrees Fahrenheit).

Production capacity for light-truck tires was increased at the Toronto and Valleyfield plants, but reduced demand for some product lines resulted in below-capacity operation in all tire plants in the second half of the year.

Modernization continued at the Toronto plant, and extensive modifications were made at Valleyfield to improve efficiency. Also in Valleyfield, training facilities were expanded to include programs for salaried as well as hourly personnel.

Highlights of industrial relations were the signing of three-year collective labour agreements at the two Toronto tire plants, and the appointment of a manager of corporate safety and industrial hygiene.

In 1977 Goodyear Canada won one international and two Canadian awards for a TV commercial using hockey players to demonstrate the performance on ice of the F32 All Winter Radial tire.

General Products

In 1977, General Products went through a period of consolidation, following the plant conversion and expansion programs of the preceding three years. Product demand was steady in most lines, with the exception of hose sales, which reached an all-time high.

A multi-million dollar order for steel-cable conveyor belting for a major oil-extraction plant in the Athabasca tar sands of northern Alberta was completed at Bowmanville in mid-year. Major improvements were made to that plant's mixing equipment, and inspection facilities were installed to handle conveyor belts up to 120 inches wide.

The Collingwood hose plant made substantial gains in productivity and waste reduction and was busy throughout the year meeting a growing demand for hydraulic control hose and automotive products.

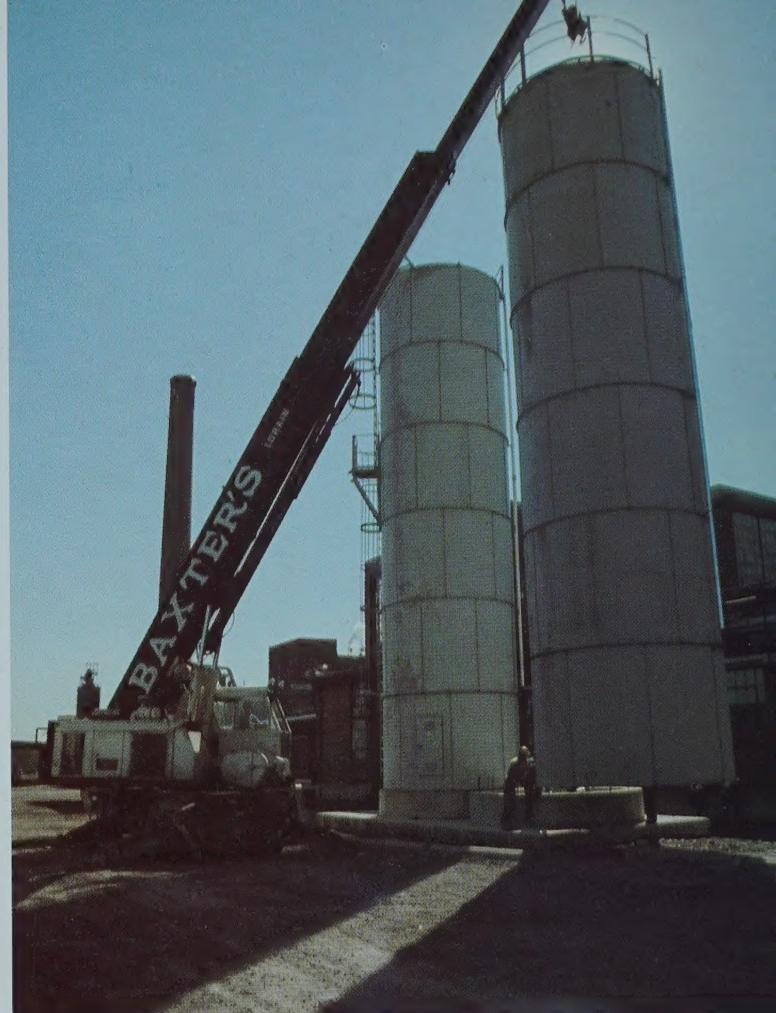
The Owen Sound plant made significant performance progress over previous years when it was being converted from foam products to V-belts. Although demand was relatively weak, the company regained its position as a major supplier of power-transmission products.

A new injection-molding press was installed in the Quebec City plant to meet the requirements of rubber bushings by the automotive industry.

Demand for plastic film for food packaging remained high throughout the year. The company introduced to the Canadian market a new industrial plastic film designed to stretch-wrap pallets of materials prior to shipment. The product is available in a variety of gauges and widths and replaces advantageously the current methods of strapping and shrink-packaging pallets.

Added importance was given to the marketing function, which was made responsible for sales as well as related support activities.

Increased attention was given to personnel training. Three-year collective labour agreements were signed at the Bowmanville and Quebec City plants.



1



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1 Two silos, each capable of storing enough resin to produce a 7,000-mile strip of packaging film one foot wide, are hoisted into position at the Toronto plant.

2 Packaging film made at the Toronto plant comes under the scrutiny of department foreman Dick Redford.



3 Worker at Reed Paper's mill in Quebec City poles pulp logs along Goodyear conveyor belting made at the Bowmanville plant.

4 Production supervisor Vern Smart verifies the length of a V-belt made at the Owen Sound plant.

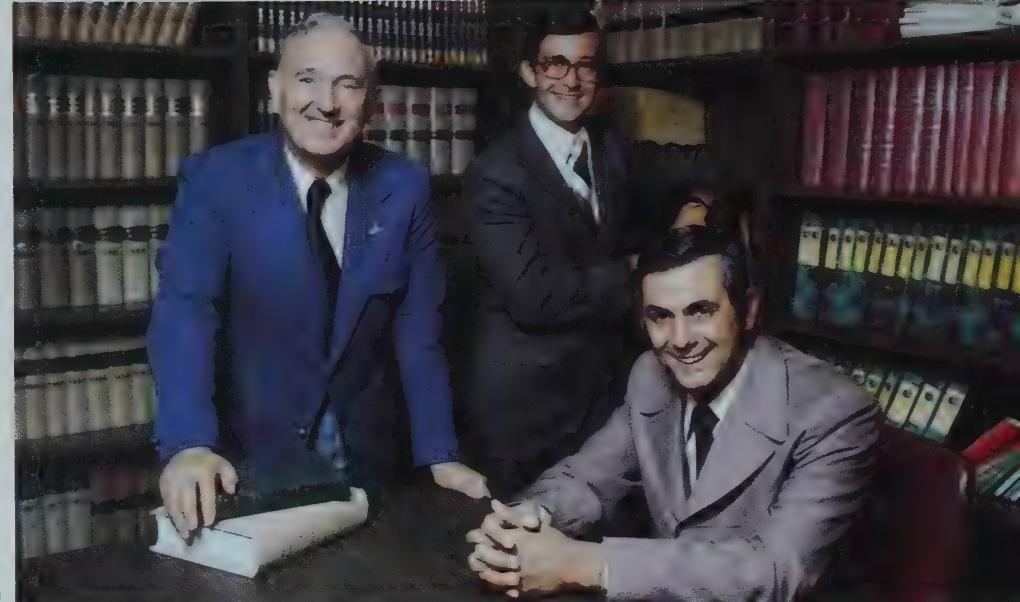
Goodyear people

For many years, Goodyear Canada has had a program of financial assistance for non-bargaining employees seeking to further their education. The program pays 75 per cent of tuition fees for educational courses approved by the company. Over the years, some employees have earned university degrees, while others have attended diploma courses at community colleges and night schools. In 1977 alone, 97 employees from the company's head office, plants and sales districts took advantage of the financial assistance program.

In addition to stimulating achievement by encouraging further education, the company, through the annual Goodyear Spirit Award, recognizes employees for outstanding performance on the job and service to the community. The 1977 winner was George Sellers, training and safety coordinator at the Collingwood plant. Sellers, who has been with the company since 1942, was cited for his loyalty to Goodyear and his contributions to the community as a member of the local Lions Club; notable among them was his work on the expansion of a camp for the deaf and the establishment of a workshop for the mentally retarded.

A flying partnership ends

Nineteen seventy-seven saw the end of a unique Goodyear working partnership that had lasted for 30 years. Company pilots Don Murray and Don Whitmore were two of the multitude of young men caught up in the flying craze of the '30s. They learned to fly at the same school in Toronto, then worked for the same aircraft firm in the early years of World War II. For most of the war, Murray was a pilot with the Ferry Command whose hazardous job was to fly unarmed bombers from Canada to Europe. Shortly after the war ended, Murray joined Goodyear as a pilot, and Whitmore followed a year later, first as an aircraft maintenance engineer, later as a copilot. Together they flew the company's DC-3 for 29 years. In 1977 Whitmore retired after some 4,300 flights.



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The tire monster

1 Assistant comptroller John Rennie (standing left), general credit manager Reg Henry (seated), and Bob McKnight, supervisor of customs and export, have earned degrees with company financing. Rennie and McKnight are bachelors of arts in economics and Henry is a bachelor of commerce.

2 A proud George Sellers displays some handiwork produced in workshop for the mentally retarded he helped establish in Collingwood, Ontario.

3 Don Whitmore (left) and Don Murray with Goodyear Canada's DC-3.



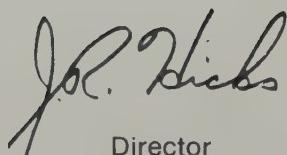
A courageous visitor to a Vancouver park tweaks the tongue of dragon made of discarded earthmover tires supplied by the local Goodyear retread plant.

Consolidated Balance Sheet

Dollars in thousands

Assets	<i>December 31</i>	
	<i>1977</i>	<i>1976</i>
Current Assets:		
Cash	\$ 926	\$ 832
Accounts receivable	60,905	65,090
Due from affiliated companies	5,823	1,633
Inventories:		
Raw materials	14,302	10,857
Work in process	5,699	6,252
Finished product	65,699	54,859
	<hr/> 85,700	<hr/> 71,968
Prepaid expenses	5,564	5,606
Total Current Assets	158,918	145,129
 Miscellaneous Investments		
at cost less allowances	1,820	1,963
 Properties and Plants:		
Land and improvements	5,938	5,323
Buildings	53,438	52,695
Machinery and equipment	150,711	147,644
Construction in progress	2,271	3,700
	<hr/> 212,358	<hr/> 209,362
Less: Depreciation	113,694	105,243
	<hr/> 98,664	<hr/> 104,119
	\$259,402	\$251,211

Approved by the Board:



Director



Director

Liabilities

December 31

	1977	1976
Current Liabilities:		
Bank indebtedness	\$ 15,161	\$ 10,662
Loan from parent company	3,334	12,155
Accounts payable and accrued liabilities	26,949	25,208
Due to affiliated companies	14,051	11,449
Income and other taxes payable	2,211	905
Deferred income taxes	2,496	2,440
Dividend payable on preferred shares	35	37
Total Current Liabilities	64,237	62,856
Long Term Debt:		
Bank loans due 1980 under revolving credit agreements with interest primarily at prime rates	72,468	75,900
Deferred Income Taxes	24,621	21,558
Deferred Income	580	626

Shareholders' Equity

Capital Stock:

4% cumulative redeemable sinking fund preferred shares
(par value \$50 per share; redeemable on call at
\$53 per share):

Authorized, issued and outstanding, 1977 — 70,244 shares; 1976 — 73,906 shares	3,512	3,695
Common shares, no par value: Authorized, 2,906,600 shares; issued and outstanding, 2,572,600 shares	129	129
Capital Surplus	692	692
Retained Earnings	93,163	85,755
	97,496	90,271
	\$259,402	\$251,211

Consolidated Income Statement

Dollars in thousands, except per share

	Year ended December 31	
	1977	1976
Net Sales	\$373,101	\$366,335
Income from investments	319	332
	373,420	366,667
Deduct:		
Costs and expenses	342,527	338,558
Interest expense on long term debt	5,524	6,944
Other interest expense	1,165	1,379
Depreciation	10,492	9,610
Income taxes:		
Current	1,270	463
Deferred	3,119	3,558
	364,097	360,512
Net income for the year	\$ 9,323	\$ 6,155
Net income per common share	\$ 3.57	\$ 2.33

Consolidated Retained Earnings Statement

Dollars in thousands

	Year ended December 31	
	1977	1976
Balance at beginning of year	\$ 85,755	\$ 81,352
Net income for the year	9,323	6,155
	95,078	87,507
Deduct:		
Dividends:		
On common shares	1,775	1,602
On 4% preferred shares	140	150
	1,915	1,752
Balance at end of year	\$ 93,163	\$ 85,755

Consolidated Statement of Changes in Financial Position

Dollars in thousands

	Year ended December 31	
	1977	1976
Source of Working Capital:		
Net income for the year	\$ 9,323	\$ 6,155
Items not affecting working capital —		
principally depreciation and deferred taxes	<u>11,964</u>	<u>12,052</u>
Total from operations	<u>21,287</u>	<u>18,207</u>
Property disposals	<u>1,850</u>	<u>1,308</u>
Investments	<u>143</u>	<u>195</u>
	<u><u>23,280</u></u>	<u><u>19,710</u></u>
Application of Working Capital:		
Expenditures for properties and plants	<u>5,410</u>	<u>11,636</u>
Long term debt	<u>3,432</u>	<u>9,812</u>
Dividends	<u>1,915</u>	<u>1,752</u>
Preferred shares redeemed	<u>115</u>	<u>116</u>
	<u><u>10,872</u></u>	<u><u>23,316</u></u>
Increase/(decrease) in working capital	<u><u>\$ 12,408</u></u>	<u><u>\$ (3,606)</u></u>

Auditors' Report

To the Shareholders of Goodyear Canada Inc.

We have examined the consolidated balance sheet of Goodyear Canada Inc. as at December 31, 1977 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1977 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Pricewaterhouse Coopers

Chartered Accountants
Toronto, January 26, 1978

Notes to Consolidated Financial Statements

1. Accounting Policies:

The consolidated financial statements include the accounts of the Company and all its subsidiary companies. All significant inter-company transactions are eliminated on consolidation.

Inventories of raw materials are valued at the lower of cost and replacement cost, and inventories of work in process and finished product at the lower of standard cost (which approximates actual cost) and net realizable value.

Properties and plants are stated at cost. Depreciation is computed using the declining balance method for depreciable assets acquired up to December 31, 1967, and the straight-line method for assets acquired after that date. Depreciation rates are based on the estimated useful lives of the assets, ranging up to 13 years for machinery and equipment and 40 years for buildings. Gains or losses on the disposal of fixed assets are included in income and the cost and accumulated de-

preciation related to these assets are removed from the accounts.

The Company accounts for income taxes on the tax allocation basis which relates income taxes to the accounting income for the year. The deferral method of tax allocation is used to account for timing differences between accounting income and taxable income.

Assets, liabilities, income and expenses in foreign currencies are translated into Canadian dollars on the following bases:

Current assets and current liabilities, at year-end rates of exchange;

All other assets and liabilities, at historical rates of exchange;

Income and expenses, at average exchange rates during the year.

All realized and unrealized exchange gains or losses are included in income.

The consolidated financial statements do not purport to comply with all disclosure requirements unique to The Companies Act of British Columbia.

2. Income Taxes:

Current income taxes have been reduced by approximately \$900,000 as a result of the 3% inventory allowance for tax purposes.

3. Remuneration to Directors and Senior Officers:

This remuneration amounted to \$433,000 in 1977 compared with \$413,000 in 1976.

4. Anti-Inflation Program:

The Company is subject to, and believes it has complied with, controls on prices, profits, compensation and dividends under the anti-inflation program of the Government of Canada.

5. Pensions:

The Company's unfunded obligation for pension benefits arising from service prior to December 31, 1977 is estimated to be \$31,675,000. This obligation, which has not been recorded in the accounts, is to be amortized by annual payments charged against operations through 1991.

Comparison With Prior Years

Dollars in thousands, except per share

	1977	1976	1975	1974	1973
Net sales	\$373,101	\$366,335	\$329,229	\$280,926	\$239,988
Net income	9,323	6,155	5,187	7,701	9,883
Net income per dollar of sales	2.5¢	1.7¢	1.6¢	2.7¢	4.1¢
Taxes and duties	\$ 28,469	\$ 24,874	\$ 26,892	\$ 30,099	\$ 23,858
Depreciation	\$ 10,492	\$ 9,610	\$ 6,933	\$ 6,010	\$ 6,078
Capital expenditures	5,410	11,636	24,458	31,225	16,392
Properties and plants — Net	98,664	104,119	102,538	84,726	59,842
Per common share:					
Net income	\$ 3.57	\$ 2.33	\$ 1.95	\$ 2.91	\$ 3.76
Book value	36.53	33.65	31.94	30.59	28.28
Taxes and duties	11.07	9.67	10.45	11.70	9.27
Employee compensation	\$118,124	\$114,189	\$ 96,273	\$ 74,864	\$ 78,728
Common shares outstanding	2,572,600	2,572,600	2,572,600	2,572,600	2,572,600

Directors and Officers

Board of Directors

C. E. CLARKE *Toronto*
P. P. DAIGLE *Montreal*
J. H. GERSTENMAIER *Akron*
J. R. HICKS *Toronto*
L. A.-LAPOINTE, Q.C. *Montreal*
A. D. NESBITT, O.B.E., D.F.C. *Montreal*
C. J. PILLIOD JR. *Akron*
B. M. ROBERTSON *Akron*
H. G. WLOKA *Toronto*

Officers

J. R. HICKS *President and Chief Executive Officer*
C. E. CLARKE *Vice-President, General Counsel and Secretary*
L. F. HUHTA *Vice-President, Tire Production*
C. H. JOHNSON *Vice-President, General Products*
P. G. MACKIE *Vice-President, Materials Management*
R. C. MARKHAM *Vice-President, Tire Sales*
P. E. VIVIAN *Vice-President, Personnel*
H. G. WLOKA *Vice-President, Finance*
W. R. HAYWARD *Comptroller*
B. R. TELFER *Treasurer*
G. W. BARNES *Assistant Secretary*
H. P. LOVERING *Assistant Treasurer*
W. C. MONROE *Assistant Comptroller*
J. RENNIE *Assistant Comptroller*
F. E. WALKER *Assistant Comptroller*

Manufacturing Plants

BOWMANVILLE, ONT.
Industrial products
Reclaimed rubber
COLLINGWOOD, ONT.
Hose products
MEDICINE HAT, ALTA.
Tires
OWEN SOUND, ONT.
Power-transmission products
QUEBEC, P.Q.
Molded and extruded goods
Shoe products
SAINT-HYACINTHE, P.Q.
Fabrics
TORONTO, ONT. (2)
Tires and tubes; plastic films
VALLEYFIELD, P.Q.
Tires

Sales District Offices

Edmonton, Alta.
Moncton, N.B.
Saint-Laurent, P.Q.
Toronto, Ont.
Vancouver, B.C.
Winnipeg, Man.

GOOD  **YEAR**